

2009-10 Governor's Budget

General Fund Workload Revenue Forecast

**Department of Finance
Financial Research Unit
December 11, 2008**

Economic Forecast Comparisons

U.S. Gross Domestic Product	2008	2009	2010	2011
Budget Forecast	1.3 %	-1.1 %	1.7 %	2.9 %
LAO, Nov. 2008	1.3	-1.0	1.5	2.8
UCLA, Sep. 2008	1.6	1.1	2.6	NA
Blue Chip, Dec. 2008	1.3	-1.1	NA	NA
Special Session Forecast	1.4 %	-0.9 %	1.6 %	2.8 %
Budget Act (May Revision)	1.2 %	1.7 %	3.0 %	3.2 %

California Nonfarm Employment

Budget Forecast	-0.6 %	-1.6 %	-0.5 %	1.4 %
LAO, Nov. 2008	-0.5	-1.3	-0.3	1.1
UCLA, Sep. 2008	-0.1	0.4	1.1	NA
Western Blue Chip, Dec. 2008	-0.3	0.1	NA	NA
Special Session Forecast	-0.4 %	-1.2 %	-0.4 %	1.1 %
Budget Act (May Revision)	-0.2 %	0.6 %	1.4 %	1.5 %

California Personal Income

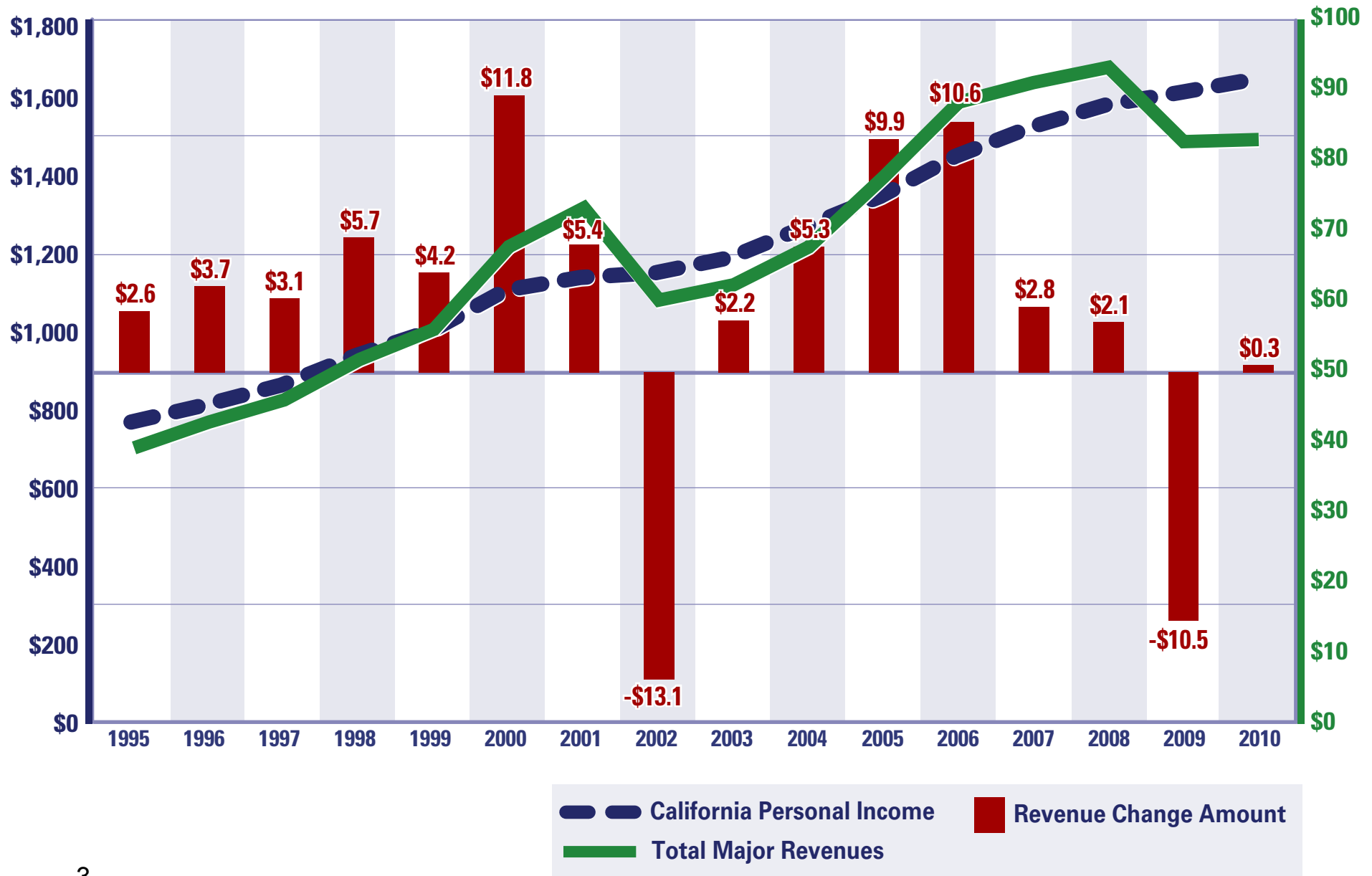
Budget Forecast	3.7 %	2.0 %	2.1 %	4.6 %
LAO, Nov. 2008	3.9	2.1	2.6	4.6
UCLA, Sep. 2008	4.5	3.3	4.6	NA
Western Blue Chip, Dec. 2008	3.8	3.5	NA	NA
Special Session Forecast	4.0 %	2.2 %	2.6 %	4.7 %
Budget Act (May Revision)	4.5 %	4.1 %	5.1 %	5.5 %

California New Housing Units (thousands)

Budget Forecast	65	57	81	123
LAO, Nov. 2008	70	74	85	100
UCLA, Sep. 2008	75	89	104	NA
Western Blue Chip, Dec. 2008	75	86	NA	NA
Special Session Forecast	67	64	83	141
Budget Act (May Revision)	70	96	130	141

CA Personal Income & Major Revenues

(Dollars in Billions)



General Fund Revenue Forecast

2009-10 Governor's Budget

Workload Budget

(Dollars in Billions)

	Budget Act	November Forecast	Change	December Forecast	Change
2007-08	103.027	102.460	-0.567	102.574	0.114
2008-09	101.992	91.333	-10.659	87.476	-3.857
2009-10	102.609	89.588	-13.021	86.295	-3.293
Three Year Change			-24.247		-7.036

Three Year Total from Budget Act to December is -\$31.283 Billion

Personal Income Tax

Forecast Changes from the Budget Act:

- 2007-08: -\$0.146 Billion
- 2008-09: -\$8.194 Billion
- 2009-10: -\$9.370 Billion

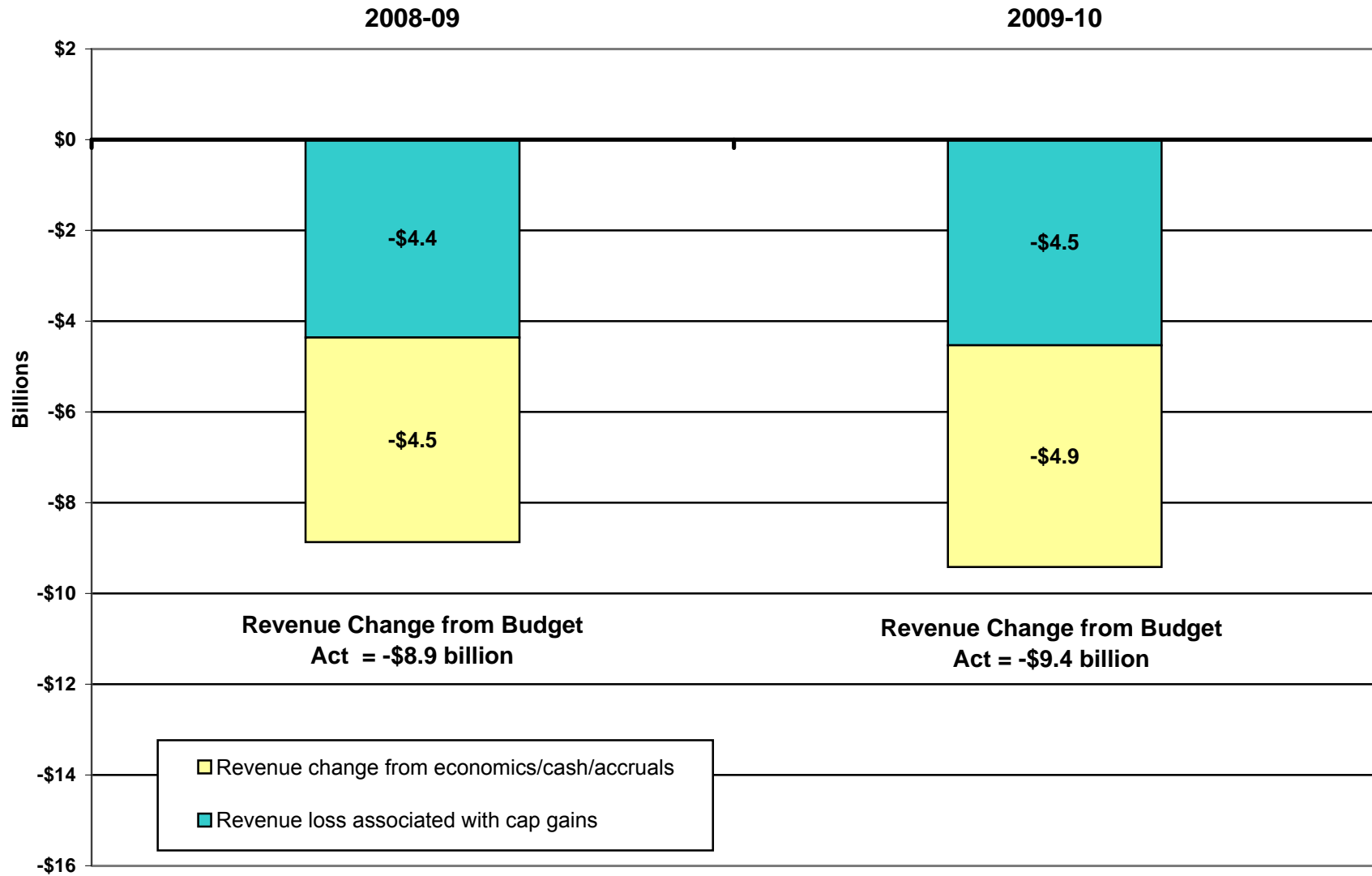
Key Economic Factors:

- Revisions to the forecast of capital gains realizations
 - From Budget Act to November Forecast
 - 2008 (-50%), 2009 (+10%)
 - From Budget Act to December Forecast
 - 2008 (-55%), 2009 (-10%)
- Budget Forecast of personal income and **YOY percent change:**

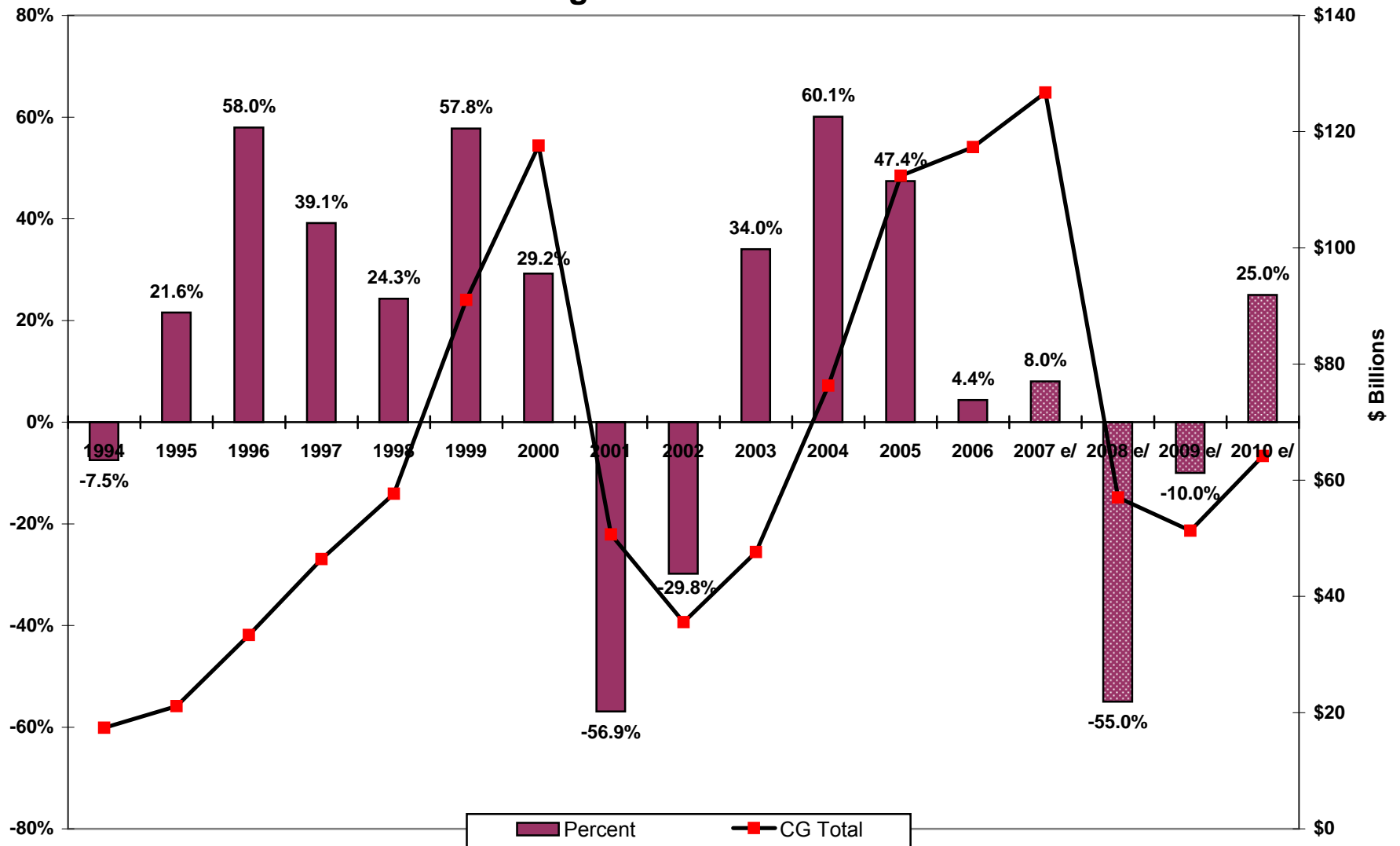
<u>2008</u>	<u>2009</u>	<u>2010</u>
\$1,577 billion	\$1,609 billion	\$1,643 billion
3.8%	2.0%	2.1%

- November withholding revenues were \$462 million below forecast
 - Of that, we estimate that \$220 million is due to lower than expected wages, and have reduced our forecast of subsequent taxable wages.

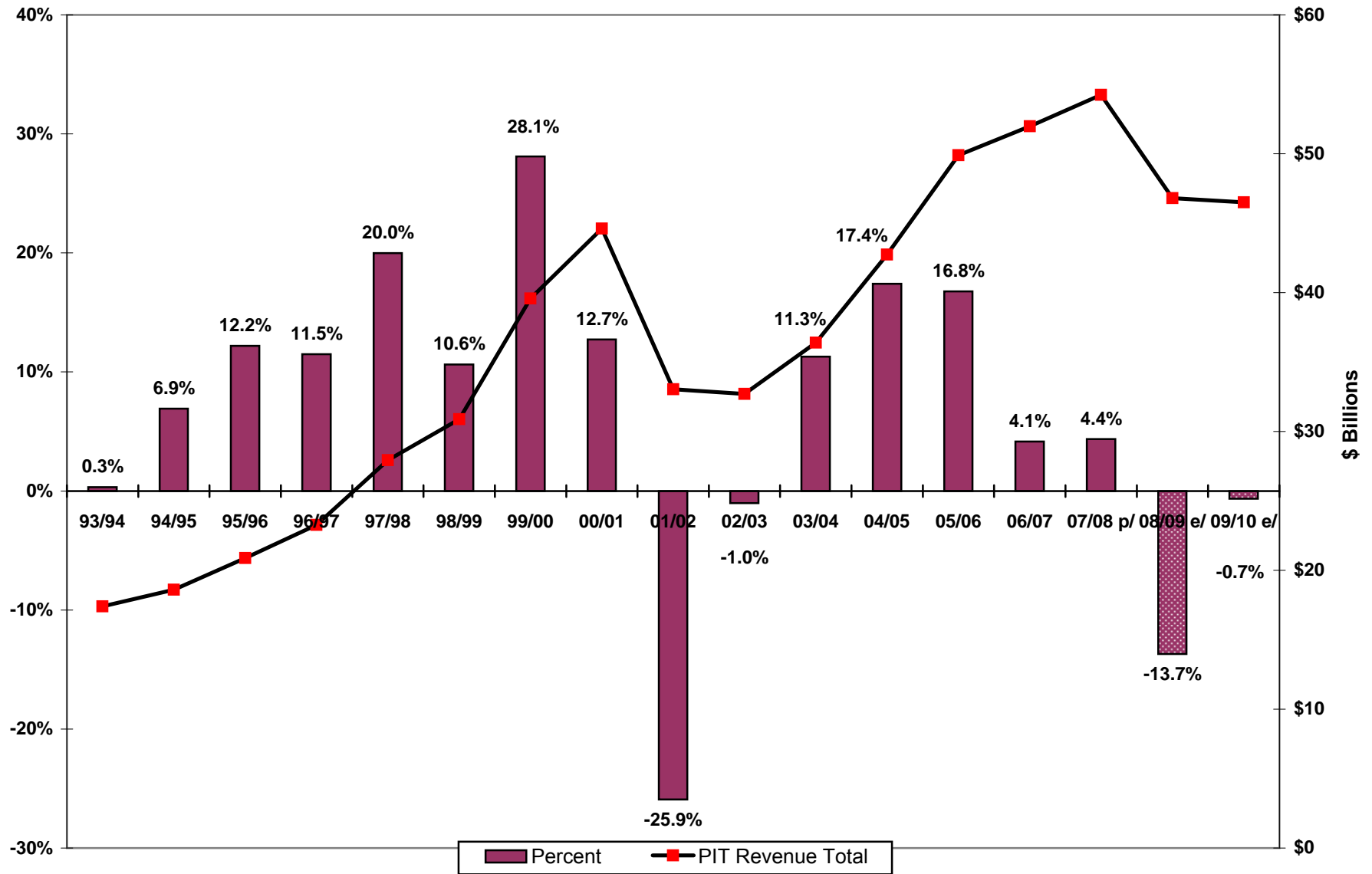
Sources of PIT Revenue Loss from Budget Act



Capital Gains % Change and Tax Year Totals



Personal Income Tax Revenue % Change and Fiscal Year Totals



Sales and Use Tax

Forecast Changes from the Budget Act:

- 2007-08 -0.200 Billion
- 2008-09 -1.957 Billion
- 2009-10 -3.733 Billion

Spillover

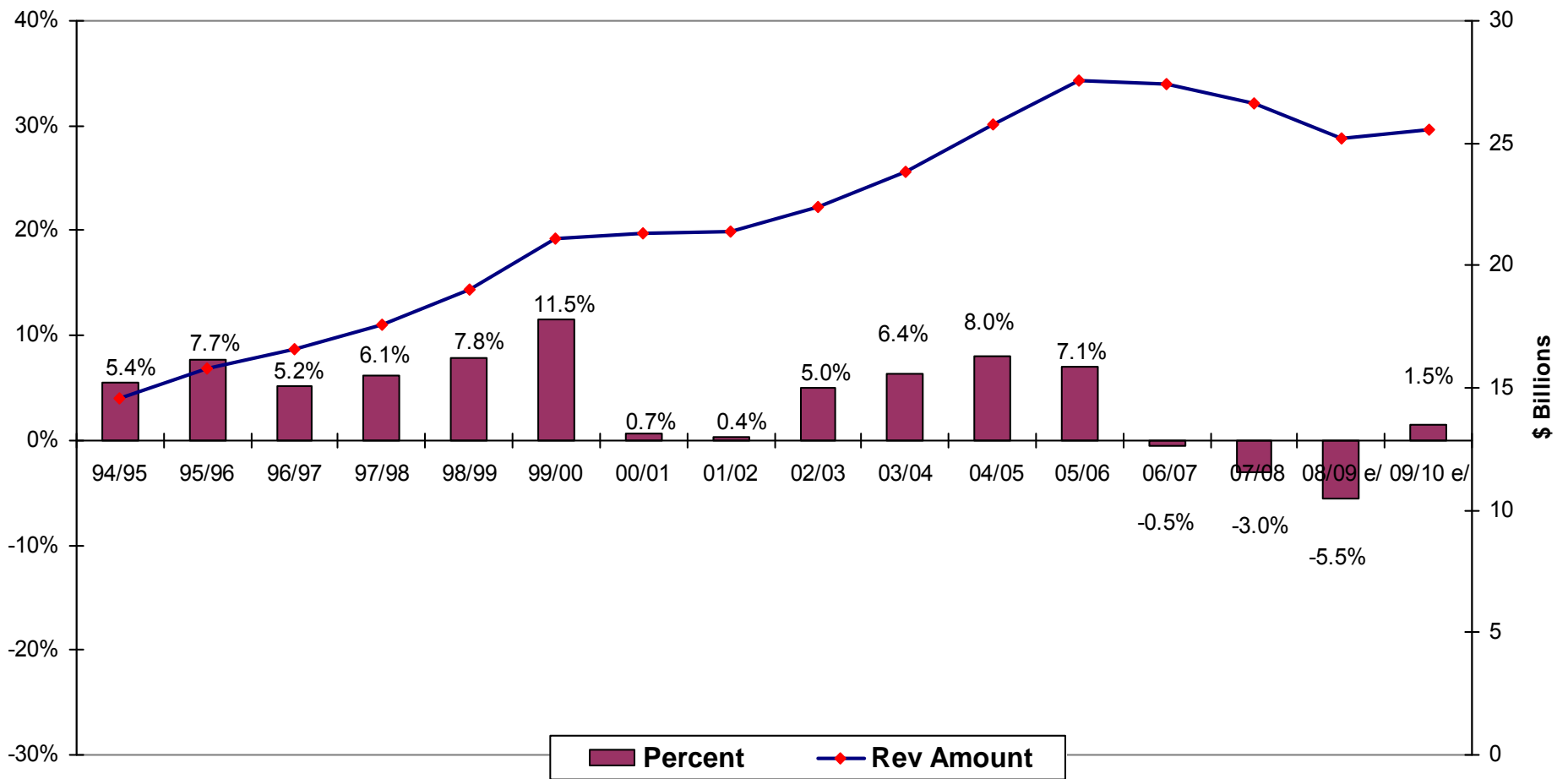
- Lower gas prices are forecasted to reduce transfers to transportation funds:

<u>2008-09</u>	<u>2009-10</u>
-\$0.508 Billion	-\$1.764 Billion

Key Economic Factors:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
• Disposable Income (in billions)	\$1,358	\$1,388	\$1,419
○ YOY % Change	+4.1%	+2.2%	+2.2%
• Auto sales (in millions)	13.3	12.1	14.0
○ YOY % Change	-17.4%	-9.0%	+13.6%

Sales and Use Tax Revenue Fiscal Year Total and % Change



Corporation Franchise and Income Tax

Forecast Changes from the Budget Act:

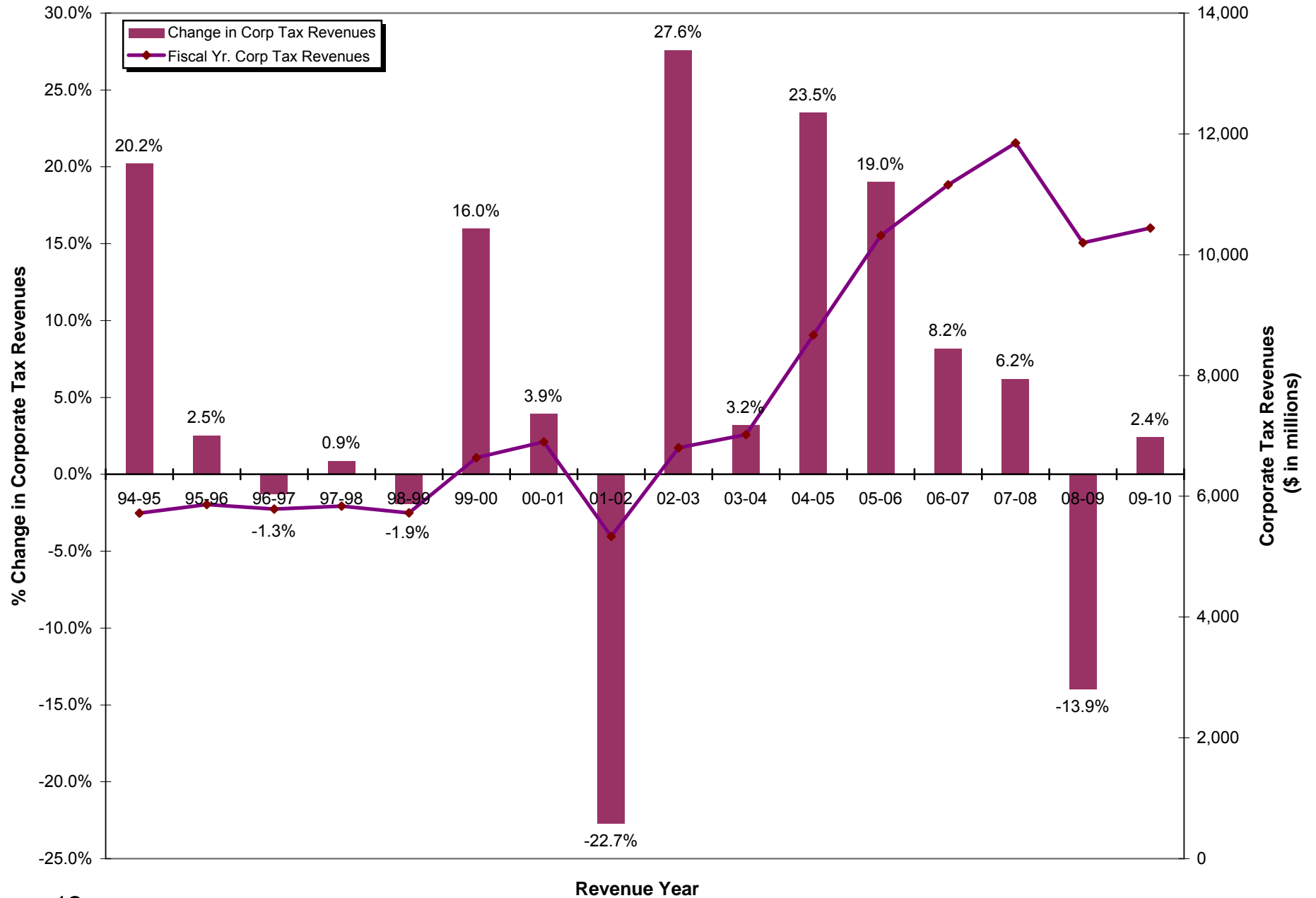
- 2007-08: -\$0.077 Billion
- 2008-09: -\$2.876 Billion
- 2009-10: -\$1.541 Billion

Budget Forecast for US Corporate Profits and year-over-year percent change:

Key Economic Factors:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
• US Corporate Profits (in billions)	\$1,519	\$1,471	\$1,597
○ YOY % Change	-7.5%	-3.1%	8.6%

Corporation Tax Revenues **Fiscal Year Total & Percent Change** GB 2009-10



Property Tax

Forecast Changes from the Budget Act:

- 2007-08 **-\$0.289 Billion (Proposition 98 cost)**
- 2008-09 **-\$0.430 Billion**
- 2009-10 **-\$0.655 Billion**

Based on a survey of assessors, growth rates will slow from 4.4% in 2008-09 to 0.3% in 2009-10 and go to -5.0% in 2010-11.

Assessed value (AV) lags prices since it is set in January preceding the fiscal year. 2008 median price is down 29.4% by October.

The higher LAO 2007-08 and 2008-09 property tax estimates used in the Budget have not materialized.

Key Economic Factors:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
• Housing permits	65,000	57,000	81,000
○ YOY % Change	-42.0%	-12.3%	+42.1%

2009-10 Governor's Budget Estimate
GENERAL FUND WORKLOAD REVENUE FORECAST
SUMMARY TABLE

Reconciliation with 2008-09 Budget Act

(In millions)

Source	Budget Act	December Forecast	Change Between Forecasts	
Fiscal 07-08				
Personal Income Tax	\$54,380	\$54,234	-\$146	-0.3%
Sales & Use Tax	\$26,813	26,613	-\$200	-0.7%
Corporation Tax	\$11,926	11,849	-\$77	-0.6%
Insurance Tax	\$2,171	2,173	\$2	0.1%
Other Revenues	\$6,525	6,468	-\$57	-0.9%
Transfers	<u>\$1,212</u>	<u>1,237</u>	<u>\$25</u>	2.1%
Total	\$103,027	\$102,574	-\$453	-0.4%
Fiscal 08-09				
Personal Income Tax	\$55,721	\$46,807	-\$8,914	-16.0%
Sales & Use Tax	\$27,111	25,154	-\$1,957	-7.2%
Corporation Tax	\$13,073	10,197	-\$2,876	-22.0%
Insurance Tax	\$2,029	1,831	-\$198	-9.8%
Other Revenues	\$3,242	2,668	-\$574	-17.7%
Transfers	<u>\$816</u>	<u>819</u>	<u>\$3</u>	0.4%
Total	\$101,992	\$87,476	-\$14,516	-14.2%
Change from Fiscal 07-08	-\$1,035	-\$15,098		
% Change from Fiscal 07-08	-1.0%	-14.7%		
Fiscal 09-10				
Personal Income Tax	\$55,863	\$46,493	-\$9,370	-16.8%
Sales & Use Tax	\$29,248	25,515	-\$3,733	-12.8%
Corporation Tax	\$11,982	10,441	-\$1,541	-12.9%
Insurance Tax	\$2,135	1,798	-\$337	-15.8%
Other Revenues	\$3,366	2,015	-\$1,351	-40.1%
Transfers	<u>\$15</u>	<u>33</u>	<u>\$18</u>	120.0%
Total	\$102,609	\$86,295	-\$16,314	-15.9%
Change from Fiscal 08-09	\$617	-\$1,181		
% Change from Fiscal 08-09	0.6%	-1.4%		
Three-Year Total			-\$31,283	

**General Fund Budget Summary
Workload Budget Without Lottery
(Dollars in Millions)**

	<u>2008-09</u>	<u>2009-10</u>
Prior Year Balance	\$3,326.3	-\$13,760.5
Revenues and Transfers	<u>\$87,476.5</u>	<u>\$86,295.0</u>
Total Resources Available	\$90,802.8	\$72,534.5
Non-98 Expenditures	\$62,183.7	\$68,860.9
Prop-98 Expenditures	<u>\$42,379.6</u>	<u>\$42,383.2</u>
Total Expenditures	\$104,563.3	\$111,244.1
Fund Balance	-\$13,760.5	-\$38,709.6
Budget Reserves:		
<i>Reserve for Liquidation of Encumbrances</i>	\$1,079.4	\$1,079.4
<i>Special Fund for Economic Uncertainties</i>	-\$14,839.9	-\$39,789.0
<i>Budget Stabilization Account</i>	\$0.0	\$0.0
<i>Total Reserve (SFEU and BSA)</i>	-\$14,839.9	-\$39,789.0
Target Total Reserve		\$2,000.0
Budget Gap		\$41,789.0

General Fund Budget Summary
With December Special Session, Without Lottery
(Dollars in Millions)

	<u>2008-09</u>	<u>2009-10</u>
Prior Year Balance	\$3,326.3	-\$6,812.6
Revenues and Transfers	<u>\$90,724.1</u>	<u>\$96,065.5</u>
Total Resources Available	\$94,050.4	\$89,252.9
Non-98 Expenditures	\$60,983.4	\$63,852.2
Prop-98 Expenditures	<u>\$39,879.6</u>	<u>\$41,720.6</u>
Total Expenditures	\$100,863.0	\$105,572.8
Fund Balance	-\$6,812.6	-\$16,319.9
Budget Reserves:		
<i>Reserve for Liquidation of Encumbrances</i>	\$1,079.4	\$1,079.4
<i>Special Fund for Economic Uncertainties</i>	-\$7,892.0	-\$17,399.3
<i>Budget Stabilization Account</i>	\$0.0	\$0.0
<i>Total Reserve (SFEU and BSA)</i>	-\$7,892.0	-\$17,399.3
Target Total Reserve		\$2,000.0
Budget Gap		\$19,399.3

Cash Flow
(Dollars in Millions--All Cumulative Numbers)

Workload Cash Flow		July Actual	August Actual	Sept Actual	Oct Actual	Nov	Dec	Jan	Feb	March	April	May	June
1	Cash Cushion at BA before RANs	\$10,068	\$9,938	\$7,596	-\$442	-\$1,485	-\$487	\$1,996	\$418	-\$663	\$3,369	\$5,170	\$10,878
2	RANs Sold				\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$3,800	\$0
3	Cash Cushion at BA With RANs Sold	\$10,068	\$9,938	\$7,596	\$4,558	\$3,515	\$4,513	\$6,996	\$5,418	\$4,337	\$8,369	\$8,970	\$10,878
<u>Changes Since Budget Act</u>													
4	Revenue				-435	-1,329	-3,092	-5,310	-6,382	-8,105	-11,160	-12,373	-13,257
5	Expenditure ^{1/}				1,622	708	-444	-786	-1,435	-1,673	-2,002	-2,216	-2,363
6	Additional Borrowable Resources				1,163	364	486	486	486	486	486	486	486
7	Cash Cushion Without Solutions	\$10,068	\$9,938	\$7,596	\$6,908	\$3,258	\$1,463	\$1,386	-\$1,913	-\$4,955	-\$4,307	-\$5,133	-\$4,256
8	General Fund Cash Flow Without Solutions	-\$3,317	-\$3,485	-\$5,027	-\$9,683	-\$12,274	-\$13,709	-\$14,111	-\$17,276	-\$19,814	-\$19,099	-\$20,496	-\$19,572
<u>Solutions Proposed for December Forecast</u>													
9	Revenues									43	436	1,642	2,609
10	Expenditures								1,866	2,167	2,640	3,082	3,675
11	Additional Borrowable Resources								2,000	2,000	2,000	2,000	2,000
12	Cash Cushion with December Special Session Solutions	\$10,068	\$9,938	\$7,596	\$6,908	\$3,258	\$1,463	\$1,386	\$1,953	-\$745	\$769	\$1,591	\$4,028
13	General Fund Cash Balance With December Special Session Solutions	-\$3,317	-\$3,485	-\$5,027	-\$9,683	-\$12,274	-\$13,709	-\$14,111	-\$13,410	-\$15,604	-\$14,023	-\$13,772	-\$11,288

^{1/} It should be noted that \$574 million disbursements not made in October are now conservatively assumed to be disbursed in November and December. Exact timing is unknown